

The IMF, the BIS and Gold

BY DOUGLAS E. JOHNSTON

EDITOR'S NOTE

The following is a letter from the author to his sons. Douglas E. Johnston, of Houston, Texas, is one of the country's leading gold stock brokers.

IT IS TIME I sat down and wrote you again about gold. Ten years between letters is too long. I feel an urgency in getting this one finished because a momentous historic event took place over this past Labor Day weekend. It was completely missed by the American press. In fact, I do not think you are going to get it all except from me.

Basically, what happened is that the International Monetary Fund (IMF) was shot down as manager of the world's monetary system and was replaced by the Bank for International Settlements (BIS) in Basel, Switzerland. It is the most important single monetary event since the Bretton Woods Agreement of 1944, which created the IMF. It is one of those events which change history.

If it had not been for a Reuters dispatch in the small hours of Tuesday, September 2, 1975 we would not have caught the key phrase... *"Real control is the responsibility of the BIS."* These eight fateful words were part of the longer message detailing the Gold Agreement reached on August 31, 1975 by the "Group of Ten" finance ministers who met quietly two days preceding the IMF's annual meeting. This Gold Agreement was widely trumpeted in our press as being a final defeat for gold. Nothing could be farther from the truth, as we shall see. *"Real control is the responsibility of the BIS."* Thereby hangs quite a tale.

Three Decades of Struggle

The IMF and the BIS have been fighting since 1944. In that year, World War II was

drawing to a close. Europe and Japan were bombed-out wrecks. There was no business—their only business was war. The only country that had any sort of an economy was the United States, which stood supreme. Our cities and industries were intact. We had \$25 billion in gold. Nobody else had any. We were absolute Number One, in a position to dictate what the shape of the postwar world would be. So we called a meeting of the world's financial leaders at Bretton Woods, New Hampshire, to tell them what an American peace would mean.

However, there were two jokers in the deck. The representative for the United States was one Harry Dexter White, a brilliant economist, soon to be identified as a Russian agent. The British representative was the famous economist John Maynard Keynes. Keynes was either a Communist or a Fabian Socialist, whose theory of deficit spending has warped the thinking of two full generations of economists in this country and England, with disastrous effects on the entire Free World.

Both White and Keynes insisted that the Bank for International Settlements be dismantled, and that the IMF be the only monetary authority.

The Bank for International Settlements was established in 1920, after World War I. Its name describes its functions exactly. It restored the prostrate economies of Europe and provided the machinery for settling debts of countries whose currencies had no meaning. The BIS represented then, as it does today, the hard-money, gold-oriented central banks of Europe who understood that the way to keep Communism from taking over the world was to stop the debauching of currencies which created inflation and despair everywhere. No wonder Harry Dexter White and John

Maynard Keynes wanted to destroy the BIS.

Battle Lines Drawn in 1920

It was a close thing, but the BIS survived. Thus the battle lines were drawn between the IMF and the BIS, each going for the jugular of the other. At first the BIS was pitifully weak, and the IMF had things its own way. The dollar was supreme. Gold was fixed at \$35 per ounce, and the dollar was officially declared to be the world's reserve currency. This meant that the dollar had the same value as gold and could be legally held as a reserve in each nation's treasury.

What all this led to was that the United States could simply issue dollars to buy whatever it wanted all over the world, and the other nations had no choice but to accept the dollars whether they wanted them or not. Thus was the world inflation started which would prove so devastating to other nations, but so helpful to the Russians. For some years no nation dared oppose the United States in all this, because we provided the military shield against Russia.

But the various nations were recovering from the war, and in 1957 the BIS people began to fight back. De Gaulle became French president in 1957, and he decided to test the theory that the dollar was as good as gold. He began to turn in dollars for gold at the \$35 rate. This caused dismay in Washington, and De Gaulle was smeared in our press as the incarnation of evil. Other nations such as Germany, Italy and Switzerland also began to claim our gold, and in 1961 President Kennedy forced the Europeans to form the London Gold Pool to support the dollar at \$35 an ounce.

The gold drain continued until one horrendous week in March, 1968, when the Gold Pool lost about \$4 billion. In a panicky weekend meeting in Washington the Gold Pool was ended, but not until our \$25 billion in gold had been cut in half, to about \$13 billion. This dreadful gold run ended with the so-called "Gentleman's Agreement," in which the various Central

Banks agreed by handshake not to buy gold in the open market. This preserved the shaky fiction that gold was still worth \$35.

I first became aware of the BIS in late 1971, when an obscure item in the Federal Reserve Bulletin indicated that something called the Bank for International Settlements had bought *all* of South Africa's gold production for that year. After many inquiries it began to dawn on me that BIS was the agency by which the Central Banks were buying gold for their own account. The BIS was not a party to the "Gentleman's Agreement," and was not bound by it. The BIS could buy gold for its members' accounts and never report it to the U.S. or the IMF. By a coincidence, South Africa became a full voting member of the BIS in 1971, the first non-European nation to be so honored. (The U.S. and Japan were not then voting members, though they were permitted to attend BIS meetings as observers.)

BIS is Manipulating the Gold Market

Perhaps you can see why I became a BIS-watcher. Slowly I began to see that the BIS was managing and manipulating the entire gold market. They kept things cool, always held the low profile, and concentrated on winning by *changing the rules* of the monetary game. The first big change came in late 1971. It was a classic.

In August, 1971 President Nixon devalued the dollar by 10% and announced that we would deliver no more gold at \$35 or any other price. Within a few months President Pompidou of France, a key BIS member, met Nixon for two days in the Azores. Pompidou persuaded Nixon that since the dollar had been devalued by 10%, gold should be raised by the same 10%. Nixon agreed, and announced that henceforth the official price of gold should be \$38 an ounce. I shall never forget the look on Pompidou's face as he stood with Nixon in front of the TV cameras after that meeting. He looked like the cat with canary feathers all over him. He knew that the myth of \$35 gold was finished, because if something can move an inch, it can move a mile.

So the gold rat-race was on. In a matter of months, the price of gold roared up to \$70 an ounce, corrected to \$60, then took off for \$130, had a stiff correction to \$90, and then headed for almost \$200 before coming back to its present level just under \$150. Pompidou had changed the rules.

That was the big change, until this most recent one on September 1, 1975. How does the BIS get its way, against the U.S. and the IMF?

I am virtually certain that the BIS gets its way by using our debt against us. This is the way all high flyers are brought down. The Europeans, Japanese and Arabs have such enormous amounts of U.S. Treasury bonds that they can blackmail us any time they wish by refusing to renew these debts when they come due. If only about one-fifth of this debt were presented for payment in one month, it would close our banks. It is that simple!

Avoiding a Banking Crisis

With President Ford frantic to be elected in 1976, the last thing he wants is a banking crisis. So when the BIS boys come at him with that sort of a threat, he knuckles under like a pussycat, and the BIS gets back in control. How do you like that for a script?

Despite the fact that the press brayed all over that this September 1st Gold Agreement was a smashing defeat for gold, let's look at some other things the BIS crowd won:

- 1) Central Banks can now buy gold for their own account. No U.S. President since Roosevelt has ever agreed to such a thing.
- 2) The IMF is going to return one-sixth of its gold to the original contributors, at \$35 an ounce. This was heralded as "phasing gold out of the system," but all it is is phasing gold out of the IMF. In five more years, the IMF won't have any gold at all, so it is the IMF that is being dismantled. This means that no IMF or U.S. sale of gold will ever depress the price.

3) The official price of gold is now abolished. This means that the only actual price anywhere is the market price. Each nation thus has a vested interest in seeing that the market price goes as high as possible. This includes the U.S.

4) There will be no official price for gold for two years. Translate this that there *will be* an official price in two years. In other words, Mr. Ford agreed to make the dollar convertible into gold at whatever the price of gold is in September, 1977, long after he is either defeated or re-elected. No skin off his nose here.

Well boys, that is what I wanted you to know.

Gold at \$500 an Ounce?

Imagine what the price of gold will be in September, 1977. If you really press me, I think it will be pretty close to \$500 by that time. The name of the game is to get the price of gold so high that no one will want to exchange paper for it. That is what you call equilibrium.

As I wrote you ten years ago, they never teach about gold in school. I've learned since that they never teach about gold anywhere else, either. It's too important to let the public in on it. I had to learn about it on my own.

We have all suffered a lot in these last ten years, but gold has been good to all of us during that time. There will be more rough times and frustrations in the next two years, but they will be sheer fun compared with what we have already been through. The BIS is in control, remember.

It took the BIS thirty-one years to get back in the saddle, but it won't take them long to press their advantage. I would rather have my gold shares, my gold coins, and my gold bullion than any other investment you can name, over the next two years.

If I ever tell you to get out of your own gold holdings, it will be at least two years from now. Fasten your seatbelts and get ready for a lovely ride.